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ABSTRACT

This volume is part of a series designed to promote stronger ties between the educational resources in the Northeast and Midwest and the economic development process. It focuses on the question that public officials face in addressing structural dislocation and long-term unemployment: whether to continue only to support those unemployed or to institute new policies to get them reemployed. Two chapters explore ways that public and private sector leaders can help to turn unemployment insurance from a passive income-maintenance program into an active tool for economic adjustment. Training in and promotion of self-employment are specifically discussed. The final chapter includes recommendations on how educational institutions as well as federal and state policymakers can participate in this new adjustment approach and contribute to the self-sufficiency of individuals and the economic health of their communities. A bibliography is appended. (YLB)

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Reemploying UI

Unemployment Insurance,
Training, and Job Creation

Paula Duggan
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Northeast-Midwest Institute:
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1987

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The Northeast-Midwest Institute is a private, nonprofit organization devoted to research and public education on issues of regional concern. Since the Institute was established in 1977, its primary goal has been to ensure that federal policies are geographically equitable and responsive to the needs of the states that long have formed the nation's industrial heartland. The Institute's primary constituency is policy-makers from the Northeast and Midwest. Its work is used by corporate and labor leaders, academics, public interest groups and associations.

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Preface

Unemployment insurance (UI) was designed to be a short-term income maintenance program. As such, it works well. However, unemployment in the United States is more complex now than even a few years ago. Structural dislocation, a type of unemployment in which long-term employees lose their jobs permanently, is becoming more prevalent.

Technological change and increased international competition have left thousands of closed plants and millions of workers with obsolete skills. Unemployment among these dislocated workers persists even in periods of economic recovery. They need to upgrade basic skills, learn new occupations, and move on to different employment, instead of waiting in vain for a call back to old jobs. To deal with this newer variety of unemployment, UI must become a mechanism for helping people adjust to change. It cannot remain a "holding vat."

Educational institutions have a real stake in this issue. Community colleges, vocational-technical schools, four-year colleges and universities, and other providers offer remedial education and occupational training that unemployed workers need. They provide career counseling, teach job-search skills, and instruct people in how to start their own businesses and create their own jobs. They also play a vital role in helping people and communities make positive adjustments to economic change.

Postsecondary schools are re-

casting their traditional services to reach new constituencies, including older students, people wanting to improve or change jobs and careers, and budding entrepreneurs. Dislocated workers form a large pool of potential clients who might enroll in occupational or entrepreneurial training, or take advantage of other business-oriented services. They should be encouraged to do so by a "change-oriented" rather than "income maintenance only" unemployment insurance program.

The Northeast and Midwest have a vital interest in making this shift happen. The region has a disproportionately large share of the nation's dislocated workers and long-term unemployed. It continues to undergo an economic transformation, creating different skill needs for which workers must prepare through education and training. At the same time, a tradition of good schooling has given the region's economy a competitive advantage. The region has benefited from high levels of public investment in both K-12 and postsecondary education. The return on this investment can grow if UI recipients have greater access to schools' resources.

This is the fifth volume of a six-monograph series designed to promote stronger ties between the region's educational resources and the economic development process. Focusing on a single critical issue, each monograph is designed as a tool for public policy makers and their counterparts in business and academic institu-

tions to translate available ideas into pragmatic solutions. The series explores strategies that touch all educational levels from local K-12 public school systems to higher education.

This education-economic development series is made possible through the generous support of the American Can Company Foundation.

1. Unemployment Insurance: Bridge or Ladder?

Unemployment insurance is the country's primary line of defense against disruptions to persons and communities caused by unemployment. The system was created by Congress in 1935 as part of the Social Security Act. It has cushioned the impact of recessions by providing temporary income to see workers through short spells of joblessness. The communities in which they live are helped as well, because UI payments maintain purchasing power and tax bases. Companies forced to lay off employees also benefit—their workers can stay in the community and wait for recall when economic conditions improve.

By law, UI revenues may be used only to pay benefits. The source of financing for UI, a dedicated tax on employers' payrolls, underscores its role as a temporary income-support program. Today most states assess the UI tax on the first \$7,000 of each employee's wages. Federal and state governments cooperate in the administration of this financing mechanism. Within broad federal guidelines, states set their own tax rates, decide on the duration and amounts of benefits, and determine individuals' eligibility to receive payments. The state UI programs generally provide benefits for up to 26 weeks to persons who are laid off through no fault of their own and are available and looking for work.

Employers' state UI taxes are deposited in state accounts with the federal treasury. These taxes

are offset against an employer's tax liability under the Federal Unemployment Tax Act, commonly called FUTA taxes. Employers' FUTA taxes cover the costs of administering the UI system nationwide, pay the federal share of additional benefit programs beyond regular state UI, make loans to states whose account balances are insufficient to cover UI payment obligations, and finance the Employment Service.

In theory, state UI trust funds build up reserves during periods of economic growth that are then available for payout during economic slumps. Three recessions in the last decade, however, pushed several state systems to the edge of bankruptcy and dramatized the importance of maintaining financial stability in the UI program. Over half the states were forced to borrow from federal funds to cover benefit entitlements. In 1983, state UI accounts were approximately \$13 billion in debt to the federal treasury.

States have reduced their UI debts substantially in recent years by cutting benefits and raising tax rates to achieve greater solvency in their systems. At present some UI accounts have surpluses. However, the "debt crisis" shows how the changing nature of unemployment has rendered a temporary-income solution inappropriate for many of the jobless. Dislocated workers often remain unemployed for the duration of their 26-week UI eligibility and well beyond. This happened to hundreds of thousands of workers in the

recessions of the 1970s and 1980s, and was at least partially responsible for the UI debt in many states.

New Kind of Unemployment

Between 1979 and 1984, 11.5 million workers 20 years of age and over lost jobs because of plant closings or employment cutbacks. Of these, 5.1 million had held their jobs for at least three years, thus building up substantial histories with their employers. In a special study published in July 1985, the Bureau of Labor Statistics (BLS) identified these people as dislocated workers.¹

Many dislocated workers are in the middle years of their working lives; often they are the primary wage earners for their families. Most went to work directly from high school, sometimes before graduating, for a manufacturing firm where they expected to stay until retirement. Frequently they had the same occupation for as long as 20 or 30 years and have endured previous layoffs by waiting them out. They have not looked for work in years, and never anticipated having to do so. Now, however, they find themselves without jobs, but with many of their prime working years still ahead.

Senator Dan Quayle (R-Indiana) described their situation well in a speech on the Senate floor:

... a dislocated worker has previously established a strong attachment to the labor force. Over many years, this person has developed a good work history in his job or occupation. This demonstrates independence and personal initiative. This is a major difference between the new structural unemployment problem and that with

which we have dealt in the past.²

Dislocated workers draw unemployment insurance benefits when their jobs disappear as if they were on short-term layoffs. However, dislocated workers have characteristics that call into question the usefulness of the UI program in getting them back to work. Obviously, when a plant closes or a mass layoff occurs, some of the unemployed find new jobs quickly. Others need some help—assessment of their skills, occupational counseling, a refresher briefing on job-search skills, resume writing, and interviewing techniques—plus UI income while they look for work. The Employment Service (financed by the FUTA tax), provides some of this needed help with job-searching. But dislocated workers often require much greater levels of assistance, such as remedial education and training in new skills, before they can be reemployed.

The BLS special study also contained new information on the reemployment patterns of dislocated workers. Of the 5.1 million dislocated workers, about 3.5 million received unemployment insurance benefits at some point in the five-year period covered by the study. Nearly half had exhausted their benefits—they were unemployed long enough that their eligibility for UI expired. In January 1984, over 1 million dislocated workers were unemployed; over half of those still looking for work no longer received UI benefits. Another 481,000 workers had given up looking and dropped out of the labor force; of these, 327,000 had exhausted their UI benefits before giving up.

The BLS study found that 2.8 million dislocated workers had found jobs as of January 1984.

About half were earning as much or more than they had previously. However, 900,000 had taken some pay cuts, and 600,000 had sustained an earnings loss of 20 percent or more. Many of the reemployed were working in occupations and industries different than their original employment. The highly skilled workers were more likely to be reemployed. Although the BLS study does not provide statistics on this issue, many dislocated workers probably had to learn new skills to find new jobs.

While BLS found dislocated workers in all parts of the country, a particularly large number—1.2 million—lived in the East North Central area, which includes the heavily industrialized states of the Midwest. Another large concentration of 800,000 dislocated workers resided in the Mid-Atlantic states—New Jersey, New York, and Pennsylvania.³

The heaviest incidence of structural dislocation is in the Northeast and Midwest, which have 57 percent of dislocated workers still unemployed.⁴ This region has a very large stake in the interconnected issues of UI income support, occupational retraining, reemployment, and new job creation.

Employers and UI

Employers have a large interest in the UI system because their taxes finance it. Employers' tax rates are partially "experience-based"; in theory, this means that employers having frequent or prolonged layoffs are taxed at a higher rate than those maintaining more stability. In fact, "experience-rating," as this disincentive is called, works imperfectly; as a result, UI costs are partially "socialized" across all employers.

While individual employers may want UI to support the company's work force subject to recall, employers in general want people reemployed as soon as possible. Few employers see their best interests served in paying benefits to workers whose plants have shut down or who have no prospect of returning to their former employment, and in paying those benefits to the "exhaustion" point (generally 26 weeks).

The desire to get people back to work quickly led to the requirement that UI recipients be "available and looking for work." This "UI work test" is intended to ensure that the unemployed make every effort to find new jobs. Eligibility for UI can be terminated if the recipient refuses an offer of "suitable work," usually defined by a wage level comparable to that of the recipient's prior employment. A recipient also becomes ineligible if he starts his own business because he no longer meets the test of searching for work.

But what if no jobs are available, or, more likely, no jobs the person is qualified for? The most common barrier to reemployment is the lack of jobs that pay wages adequate to cover workers' financial obligations, such as home and family, built up over many years of steady employment with a now defunct company or plant.

For employers as a whole, what matters is that recipients land jobs and get off UI. They have no interest what wage the jobs pay the employees. With UI taxes generally assessed only on the first \$7,000, most employers do not see an obvious payoff in supporting retraining for the unemployed even though it might qualify them for appropriate or suitable wage jobs. In fact, many employers see a downside to training: it takes

time and may prolong the person's receipt of UI. However, education and training may be just what dislocated workers need.

Another option for dislocated workers might be starting a small business. Occupational skills they gained in previous jobs could be the basis for a service firm, or a hobby might have potential for product development and sales. With the right advice and support, the dislocated worker might create his own way out of unemployment. This approach is not without its critics, however. Some in the business community object to allowing a person to try this avenue while collecting UI, because employer taxes would be helping to finance potential competition.⁶

For employers, UI policy choices are somewhat akin to tossing a coin: the bet is on whether unemployed workers will get off UI faster and more permanently by looking for the same work, or by another route, such as updating skills, learning other skills for a different occupation, or starting a new business.

Clearly, however, the UI system involves more than the interests of employers whose taxes finance it; workers whose livelihoods are at risk and society at large have a stake in the systems as well. A few states require employee contributions to UI—a policy that recognizes workers as interested parties. Some would argue that ultimately all UI taxes are paid by workers in the form of lower wages. From this perspective, workers' interests would be the primary concern for policy making on UI.

In contrast to the U.S., some European countries use general revenues to pay unemployment benefits, on the theory that society at large suffers when unemployment

rises. In the U.S., the question of whose interests are foremost becomes problematic when unemployment rises and becomes prolonged. The belief that societal interests are involved led to other measures to help the unemployed through these periods. The federal government set up the Extended Benefits program that provides 13 weeks of benefits past the original 26 in states where unemployment levels have passed a "trigger" point.

The federal government and the states share the cost of this program. In the recessions of the 1970s and 1980s, the federal government instituted supplementary tiers of unemployment benefits financed by general revenues, which also fund assistance for particular categories of workers, such as those whose jobs disappear because of foreign trade pressures. In short, these policies recognize that at some point long-term unemployment becomes a larger concern, not limited to the employer community.

The question for public policy makers in addressing structural dislocation and long-term unemployment is whether to continue only to support those unemployed or to institute new policies to get them reemployed. The next two chapters explore ways that public and private-sector leaders can help to turn unemployment insurance from a passive income-maintenance program into an active tool for economic adjustment. The discussion includes recommendations on how educational institutions as well as federal and state policy makers can participate in this new adjustment approach and contribute to the self-sufficiency of individuals and the economic health of their communities.

2. Training

Training is the key to reemployment for many of those out of jobs. Workers must be flexible and adaptable, ready to learn new skills, and open to the prospect of retraining to meet workplace needs. The growth of the service sector relative to manufacturing has increased the demand for higher-level analytical and reasoning skills. Similarly, in manufacturing, the changing skill content of jobs and the move to more participatory forms of management require workers to think critically and apply knowledge to a greater degree than in the past.

Some workers facing the prospect of long-term unemployment can benefit from immediate retraining. Some find it through training offered by new employers on the job. Others gain new skills by returning to school.

Educational institutions, particularly community colleges and vocational-technical schools, have experience in the training field. Most offer courses in a variety of occupations. Frequently, they set up training programs under contract for companies wanting courses tailored to their specific needs. They also provide training for clients of public programs, such as welfare or the Job Training Partnership Act (JTPA).

Other workers require help with basic education before they can begin training for new occupations. Employers, unions, training program operators, and educational institutions have found that many dislocated workers seeking retraining lack the basic

skills needed for their courses. One assistance center, Downriver Community Conference in Southgate, Michigan, estimates that 30 percent of its dislocated worker participants read at or below the sixth-grade level and need remedial education before they can be retrained. Other dislocated worker programs report similar findings.⁶

Educational institutions also conduct remedial courses in basic skills: reading, writing, and mathematics. Remedial instruction often is integrated into skill training so that students can see the relevance of basic education for their future work.

Remedial education and occupational skill training have been the route out of unemployment and dependency for hundreds of thousands of people. Educational institutions have a record of success that holds promise for UI recipients. For them to have access assured to these resources, however, federal and state policy makers must make some changes in the UI program.

Approving Training for UI Recipients

Congress has recognized that training can be valuable in the reemployment of UI recipients. In 1970 it amended the UI statute to prohibit states from denying UI eligibility to persons who are in "training with the approval of the state." In essence this provision waives the UI requirement that recipients, for the duration of

training, be "available and looking for work." Congress has reaffirmed several times its support for combining UI and training, most recently when it passed the Job Training Partnership Act in 1982; the law states that all training conducted under Title III, the dislocated workers' program, is to be considered "training with the approval of the state."

State agencies differ, however, in their administration of these provisions to encourage training. While all states approve JTPA Title III programs, many have cumbersome procedures for approving other programs or for allowing UI recipients not eligible for Title III to enroll in job-related educational programs.

These difficulties are due in part to the complexity of state approval processes. State agencies must determine what training programs or courses are approved, and which persons are approved. State Employment Security agencies are entrusted with this approval process. Few, however, have any particular expertise in deciding what training should be approved. Presumably, questions of the quality and relevance of instruction must come into consideration—questions familiar to state education agencies and accrediting boards, but not so routine for Employment Security personnel.

Some members of Congress have introduced legislation that would require governors to designate an agency to approve training. This would allow governors to choose the agency best equipped to make determinations about the quality of training. Short of congressional action, **governors should review which agency in the state is handling the approval process for UI training programs.**

They should assign this function to the most appropriate body.

Massachusetts has dealt with this part of the approval process by giving automatic approval to courses funded under a variety of employment-related programs, including JTPA Title IIA (training for the disadvantaged), Adult Basic Education (ABE), English as a second language (ESL), GED preparation, Bay State Skills Corporation, and other Massachusetts-specific programs. Other courses must meet the following criteria:

- be conducted on a full-time basis—20 hours per week;
- consist of vocational or industrial training;
- provide intensive training of short duration (1 year or less);
- be designed not primarily to meet the requirements of a degree program; and
- achieve an average "placement rate" of 70 percent during the most recent 12-month period for which such data are available.⁷

Local UI office claims adjudicators have the responsibility for making determinations in the course-approval process.

All states should specify which programs and/or institutions are approved automatically for providing training to UI recipients and should develop clear criteria for prompt approval of additional training programs. Educational administrators should find out if their programs are approved for training UI recipients, and seek approval if it is not granted automatically.

The second part of the approval process deals with a determination of which individuals should be approved to enroll in training.

Here, the practical problem in administration is not only whether training will help a person's reemployment prospects but also whether enrollment in a training program will prolong an individual's receipt of UI benefits. Some evidence from the state of California indicates that participation of unemployed workers in training while receiving UI may increase the duration of benefits, and thus increase UI costs.⁹

Massachusetts specifies who may be approved quite strictly because the state will pay additional UI benefits past the 26-week regular program while a person is in attendance at the training facility. The total of these additional benefits may not exceed 18 times the weekly UI benefit amount to which the person was entitled. Automatic approval is granted to JTPA Title IIA participants, those who meet state definitions of "dislocated worker," and "long-term claimants who have been in total unemployment for 15 consecutive weeks or longer and have been permanently separated from their last employer."¹⁰ For individuals who do not qualify for automatic approval, the state has an application process.

The option of enrolling in training while collecting UI is advertised widely to claimants. The Division of Employment Security's policy states: "This opportunity to obtain training and education while unemployed is to be brought to the attention of all claimants. Claimants are to be encouraged and assisted in their consideration of the training option."¹⁰

All states should adopt clear policies on who may enroll in training while continuing to receive UI and make these determinations promptly in each case. State policies should encourage training for UI claim-

ants who will have difficulty finding new jobs without improved skills.

The Massachusetts criteria for long-term claimants (15 weeks unemployed and permanently separated from an employer) suggest that states can develop objective measures to define automatic eligibility in a way that limits additional costs to the UI system while claimants enroll in training. States already use UI data to study broad questions of occupational growth and decline; these data also could be used to help make determinations of individuals' reemployment prospects and the potential benefits of retraining.

States should study historical UI data to see whether patterns of UI exhaustion exist in particular occupations and industries. New UI claimants from these sectors could be made eligible for retraining automatically.

State Employment Service agencies sometimes administer aptitude tests for UI recipients. They could make these assessments in conjunction with administering the UI work availability test. Using various tests, Employment Service job counselors could judge whether an applicant's basic skills are adequate for the literacy demands of today's jobs. The counselor also could determine if a person's job skills might be suitable for an entirely different occupation. This process might open up possibilities for placing the person in immediate new employment. It also might indicate that a person's skills are so specific to an obsolete job that retraining is the best route to reemployment.

States should use assessment of the UI recipient's existing skills to help decide if retraining would be useful.

Federal budget reductions for the Employment Service in the early 1980s led states to cut back drastically on testing and assessment activities. As a result, the number of individuals receiving ES counseling dropped by 40 percent between 1981 and 1983, and the number tested declined by 30 percent. However, accurate assessment is essential to the efficient use of UI and limited training funds available under the Job Training Partnership Act. **States should reexamine their use of Employment Service funds and reemphasize testing and assessment to conserve scarce income-support and training dollars.**

In 1982, Congress passed amendments to the Wagner-Peyser Act (the authorizing legislation for the Employment Service) returning a substantial amount of discretion to the states to set their own ES priorities. The amendments also changed the ES planning process to give local Private Industry Councils a say in how ES funds could be used best in conjunction with job-training funds. The legislation directed that each state dedicate ten percent of its funds to improving performance, including providing services to groups with special needs.

The 10 percent setaside should be used to strengthen the assessment and testing capacity of the Employment Service and to improve the process of determining whether UI recipients would benefit from retraining. Private Industry Councils should emphasize this activity in their consideration of ES plans for local service.

The UI-retraining connection is significant for the providers of skills programs—community col-

leges, vocational-technical schools, four-year institutions, and others—because it bears on recipients' means for supporting themselves while in training. The Job Training Partnership Act offers scant help; it places emphasis on training rather than income support, and prohibits the payment of allowances, stipends, or wages. Many program operators cite this absence of funds for basic support as an impediment to training. Under JTPA's predecessor, the Comprehensive Employment and Training Act (CETA), a large percentage of funds went to providing stipends for persons enrolled in various educational and training activities. JTPA's ban on support payments, however, has forced training providers to make alliances with existing income maintenance systems, such as welfare and UI, to help trainees in their programs.

Educational institutions clearly have made the necessary connections. Community colleges and vocational-technical schools are major providers of training for JTPA's dislocated workers program (Title III). However, school administrators should look beyond JTPA and make their services available for other UI recipients.

Educational administrators should talk with state Employment Security administrators to determine what policies the state has adopted for increasing the enrollment of UI claimants in training and educational programs. They should emphasize the logic of training people while they have some income to support themselves.

The Employment Security system, composed of UI and the Employment Service, is a federal-state partnership. The federal gov-

ernment has a responsibility for promoting the best practices in this system, including the option of training, if they lead to the reemployment of UI recipients. Despite its 1970 congressional prohibition on denial of UI eligibility to persons in training, the federal government has given the states little help in sorting out the components of "approval" or assessing the costs and benefits of training.

The Department of Labor should provide technical assistance on the training issue to the states, helping them to share information about processes for approving training for UI recipients.

In particular, the Department should develop optional methodologies for using historical data and assessment tools to help states anticipate who may exhaust UI and who may benefit from retraining.

The Department of Labor also can upgrade and expand existing data collection systems to gather and publish better information on training activities. The Department currently collects only limited information about participants in the JTPA programs for dislocated workers. States are required to report whether participants were receiving UI at the time of enrollment and whether they were long-term unemployed. The reporting system could be expanded to offer more insight on the issue of costs and benefits of training UI recipients.

The Department of Labor should include information in the JTPA reporting system on the number of weeks of UI received by Title III trainees, and data on their exhaustion of UI benefits before or during participation in Title III. The

Department also should collect information about the training experiences of non-JTPA UI recipients, including data on occupations and wages before and after training, to evaluate its contribution to their reemployment.

Congress can take other steps to encourage states to use training as an option for UI recipients. For example, states are allowed to count UI payments made to dislocated workers in training programs (Title III) as part of the required state match for federal funds. This precedent could be expanded to other required state spending.

Since the potential of training to extend the duration of UI benefits causes concern about UI debt, Congress could offer an incentive to states by allowing them to offset UI payments made to training-program participants against interest owed on loans to cover UI obligations. It could allow other offset-type encouragements for states with no outstanding loans.

Congress should develop positive incentives for states to combine UI and training using the offset precedent of Title III of JTPA.

Congress also could "approve" of more training than JTPA Title III. For instance, although few UI recipients are eligible for JTPA Title IIA because of its income restrictions, granting blanket approval to these programs could set an example for states on how to establish automatically what is "approved." Some training programs for veterans also might be treated this way.

Congress should explore whether additional federal training programs could be considered "training with the approval of the state."

Work Sharing

Work-sharing is an innovation in the UI system adopted by several states. Also called part-time compensation, the program provides partial UI payments to workers to compensate for reduced work hours. It serves as an alternative to layoffs when an employer faces slack demand. Rather than laying off 20 percent of a firm's work force, for example, the company could ask employees to work four days a week and receive unemployment payments as partial compensation for the fifth day's wages. The program helps employers by allowing them to retain a skilled work force; it also helps the employees, who share the hardship of unemployment but keep their jobs.

Work-sharing has the subsidiary effect of giving workers time to upgrade their skills or train for new occupations where permanent work force reductions are inevitable. On their day off, workers might enroll in courses at a community college or vocational-technical school. Since people on work-sharing have jobs already, the regular UI rules about "available and looking for work" do not apply. Therefore, state approval for training is unnecessary.

Institution of a work-sharing policy in the UI system requires state legislation. California has run such a program for several years. Arizona, Oregon, Washington, Florida, and Maryland have authorized its operation, and others are considering it. As with training UI recipients, work-sharing may increase costs to the state's UI program. In California, the program has a small negative financial impact on state government revenues. Each state would have to analyze potential costs against benefits in work-sharing

programs.¹¹ Where permanent layoffs are anticipated, the program does give workers lead time to prepare for new employment opportunities.

Administrators of education and training programs should find out if work-sharing is authorized in their state. They can work with Employment Security administrators to determine whether training would be a useful option in particular work-sharing situations.

State-Initiated Training Funds

Federal law limits the use of UI funds solely to the provision of benefit payments. Congress could change the law to allow FUTA tax revenues to fund training directly. Recognizing that such action is unlikely in the near future, states are creating funds for training that use the UI tax-gathering capacity in new ways. As discussed, various factors have kept the combination of UI and training from flourishing. However, a general lack of funds to support training also has slowed progress. JTPA Title III is the only readily available financing, but funds for this program nationwide will amount to \$200 million for fiscal 1987. At this level, the program probably serves only about 4 percent of those eligible.

States increasingly are recognizing the value of training to make their economies competitive. A skilled work force is a prime asset for businesses seeking to expand or relocate. States used the opportunity presented by Title III to enlist their educational institutions in helping dislocated workers. They quickly engaged their community college and vocational-technical systems to provide remedial education, skills

upgrading, and occupational retraining for those with small chances for reemployment. Now, states are developing innovative ways to fund more training and put their entire educational systems to work for the unemployed.

In 1982, the California UI system had a \$2.7 billion surplus. The legislature reduced the overall UI tax rate by 0.1 percent and instituted the Employment Training Tax on employers at the same level. The tax supports programs to help people in the work force learn skills that either put them back to work or keep them from losing their jobs. Thus, workers are eligible for training if they are UI claimants, likely to become claimants, or have exhausted their benefits. About 2 million California workers were eligible in 1982. The new tax can generate \$55 million per year for training. Collections in excess of the \$55 million limit revert to the state's UI fund.

The California fund is administered by the Employment Training Panel. It relies on the state's extensive community college network to develop programs that meet the needs of specific companies or provide skills in occupations in demand. The community colleges and the state strive to ensure that all training will lead directly to jobs. Colleges are allowed to train workers only for jobs that promise long-term security and reasonable wages. Training does not begin until employers agree to participate and hire those completing these programs.

In addition to the primary mission of training the unemployed, the California legislature wanted the training panel to support two related economic development goals: giving employers an incentive to locate or expand their companies, and improving the

business climate by reducing employers' UI costs in the long run. As newly trained persons secure steady employment, all employers are expected to benefit.

A state-owned training fund has the advantage of allowing the state to set its own eligibility rules and establish its own priorities for training participants. Because California's program is an offshoot of the UI system, UI recipients are primary choices for service. **States with UI systems generating healthy surpluses should consider lowering their UI tax rates and substituting an equivalent tax to create a training fund.**

Delaware recently established a Permanent Training Fund by substituting a training tax for a UI-related tax. A unique opportunity arose when the state's 0.6 percent FUTA penalty tax expired in 1984. (The federal government imposed this penalty tax on all states to pay off the debt created by the Extended Benefits program in past recessions.) Delaware's legislature continued to collect 0.1 percent after 1984 to create the training fund. The new tax represented a lowered burden for employers while generating a 32 percent increase in training funds for the state. Funds collected are used for any of the following activities:

- counseling, training, and placement of dislocated workers;
- providing industrial training; and
- assisting with vocational guidance, training, and job development.¹²

The FUTA penalty tax that allowed Delaware to create its training fund expires at a different time in each state as its purpose is completed.

States should retain portions of expiring FUTA penalty

taxes to create new training funds.

The Massachusetts legislature is considering a major package of legislation to tie several education, employment, and related activities into a comprehensive, labor market-based training delivery system. The state already has redrawn its employment security system's service boundaries so that UI and Employment Service operations correspond geographically to the JTPA service delivery system.

The legislature is considering the creation of a state training fund supported by a small excise tax on employers. This 0.1 percent tax on the first \$7,000 of every employee's wages (the same base used for the UI tax) would go into a "skills investment fund" used for skills upgrading, training and retraining, and adult literacy programs.

The bill before the legislature envisions that 25 percent of agencies targeting their services to UI recipients, exhaustees, persons about to be laid off, and dislocated workers would receive training contracts.

These state initiatives highlight the efficiency of the UI tax-gathering system and its effectiveness in generating large amounts of revenue. Obviously, its coverage declines during recessions when the

payroll base for the tax shrinks and claims for UI grow. All systems must accumulate substantial surpluses to guard against insolvency during economic slowdowns. States also must be zealous in guarding the financial stability of their programs.

However, while unemployment increases the need for temporary UI income, it also makes imperative the need for retraining workers whose jobs will be lost permanently. These state training funds can be a significant factor, perhaps more effective than UI in the long run, in helping workers into more secure employment futures. Quality training, provided through the state's networks of two-year colleges and technical schools, will show profits for individual workers and state economies after temporary income has run out.

Educational administrators obviously are concerned about financial resources to operate training programs. They are called upon to speak publicly about the adequacy of budgets for this purpose. **Educational administrators should work with Employment Security administrators to examine the feasibility of creating state training funds based on payroll taxes. They could become important allies in presenting this concept to the legislature.**

3. Using UI to Promote Self-Employment

Congress and the states have allowed the UI system, in limited circumstances, to support workers in training programs. States are setting up training funds using innovative taxing schemes.

Another course of action taps the potential of UI for creating new jobs: helping people to start their own businesses while collecting UI. Use of public money to underwrite private enterprise usually is reserved for large undertakings; the mechanism, however, can work well for the individual entrepreneur.

Self-employment is growing faster than salaried employment. Its growth accelerated following recent economic swings as some of the unemployed became "entrepreneurs of necessity." Independent small businesses are important contributors to local economies because they often create job opportunities for others. During the 1980-82 recession, small firms with fewer than 20 employees produced a total of 2.6 million new jobs, more than offsetting the 1.7 million positions lost by large businesses.

Starting a new business requires capital investment. The amount varies from enterprise to enterprise, but often it is smaller than people realize. A recent survey of 155 new firms by the National Federation of Independent Businesses showed that 18 percent had started with less than \$5,000 in capital, another 13 percent with \$5,000 to \$10,000 and nearly half had begun with less than \$20,000.¹³ Start-up invest-

ment money usually is in short supply for the unemployed, however. Workers' unemployment insurance could go a long way toward meeting these capital needs.

The amount of UI paid per week depends on the person's wages over several previous quarters. In mid-1986 the average weekly UI benefit nationwide was over \$129. This ranged from \$89.52 in Mississippi to \$155.60 in Minnesota. Assuming that a person collects UI for a full 26 weeks, UI provides sums ranging from \$2,328 to \$4,046. Budding entrepreneurs could use this money to finance part of their start-up costs.

European Self-Employment Programs

The United States has no experience in using UI to promote entrepreneurship and new business creation. Several European countries, however, have launched programs to help the long-term unemployed create jobs for themselves by founding their own firms. Foreign program designs include loans or grants, lump-sum payments, and periodic installments. Some require personal capital and formal business plans, but others do not.

Great Britain and France have had programs in place for several years, and report encouraging results. The British estimate that for each 100 participants in its Enterprise Allowance Scheme (EAS), unemployment falls by 33 persons. France attributes one-third of all business starts in the

past three years to its self-employment program.¹⁴ These programs involve between 2 and 3 percent of the unemployed in these countries annually.¹⁵ Both suggest options for experiments in the U.S. to test the feasibility of using UI to create jobs through small business start-ups. In fact, the first of these, the Self-Employment Investment Demonstration, will get under way in 1987. This four-year project sponsored by the Corporation for Enterprise Development will promote self-employment as an option in welfare-to-work programs in seven states in the Northeast-Midwest region.

The British Enterprise Allowance Scheme helps those unemployed 13 weeks or longer start businesses by paying them a flat allowance of 40 pounds (about \$60) a week for a year in place of their regular unemployment benefits. Prospective entrepreneurs must have at least 1,000 pounds (approximately \$1,500) of their own money available to invest in their businesses. Applications are not screened for the viability of the business proposal or likelihood of success. However, applicants must attend an introductory training session. They may attend additional business counseling sessions in which business plans and other necessary management tools are discussed. Training services also are available to EAS participants upon request, but are not mandatory.

Begun as a pilot program in 1982, the EAS proved so popular that it was expanded and made available throughout Britain in 1984. The program, administered by specialist teams located in 70 job centers nationwide, is open to 50,000 potential entrepreneurs each year. By the end of 1985, 139,000 had enrolled.¹⁶ British labor officials estimate that one-

third of the participants succeed in staying off the unemployment rolls. A preliminary assessment of business survival rate is encouraging; 52 percent were still in operation three years after their launching.¹⁷ This is comparable to the average success rate of small business in Great Britain.

The weekly allowance under EAS is funded from general revenues. The British government estimates the net cost the first year is approximately 2,690 pounds (about \$4,050) for each person admitted. As these new companies begin to generate tax revenues and create additional jobs, their relative cost decreases. In fact, their net cost to the unemployment system drops to about 650 pounds (around \$975) per participant at the end of 24 months.¹⁸ More than a quarter of these new companies add at least one new employee in addition to the entrepreneur. The British government estimates that each 100 EAS businesses surviving three years creates an additional 99 jobs.¹⁹

The Department of Labor, together with the states, should establish a pilot program redefining the "available and looking for work" requirement to allow UI recipients to collect their benefits for a limited period of time while starting new businesses. The program could be limited to persons with a certain amount of their own money to invest in the enterprise, be targeted to those with certain education or skills levels, or could have other conditions attached that would help promote the commitment necessary for a positive outcome.

France started an Unemployed Entrepreneurs Program in 1979 as a demonstration project, and made it a national policy in 1980. Since April 1984, French citizens

entitled to unemployment compensation or welfare could collect up to 43,000 francs (about \$5,500) in a lump sum to help them start a business or buy an existing one; 78 percent opt to start new companies.²⁰ The average French payment is \$2,466. Additional grants are made for each worker the new company hires during the first six months. By the end of 1985, nearly 235,000 unemployed persons had taken advantage of the program.²¹

In a recent survey, the French government found that 51 percent of the new entrepreneurs would not have tried self-employment without the lump sum; another 26 percent indicated they probably would have foregone the attempt. More important, that same survey discovered that between 60 and 80 percent of the new firms survived for three years or more.²² This is consistent with business success trends in France.

French officials credit entrepreneur program participants with one-third of all new business starts in France in 1984. Many of these enterprises are helping more than just the founder; they have created an average of two jobs each. About 2.7 percent now employ more than ten persons.²³

The Department of Labor could join with states to design a pilot program offering lump sum UI payments to recipients with viable small business ideas. Like the allowance idea, certain conditions, such as structuring an acceptable business plan or attending entrepreneur counseling sessions, could be included to enhance participants' likelihood of success. **Colleges and universities can work with state and local governments and economic development agencies in establishing such thresholds and helping**

prospective entrepreneurs acquire the expertise to meet them. With their management and technical assistance capacity, business course offerings, training experience, and staff expertise, they are ideally suited to lend a hand to improve the survival odds for small companies started under this type of program.

Belgium has had a program since 1984 to provide loans of up to 500,000 Belgian francs (about \$11,500) to persons currently on unemployment who wish to establish a business and are willing to risk up to three years of future benefits. Interest rates on the loans are low, and the notes themselves carry generous repayment terms. The typical entrepreneur participating in this program uses the loan to leverage an additional \$19,000 in commercial loans. Belgian officials indicate that about 1 percent of the unemployed on its rolls obtained help through this program during its first year.²⁴

A recent study by Marc Bendick, Jr., and Mary Lou Egan examined the nature of the businesses and jobs created under transfer payment programs. In France, for example, they found that 30 percent of the businesses assisted under the entrepreneur program were service-oriented, 28 percent devoted to retail, and 22 percent in construction trades. Nearly 72 percent of these firms started with less than \$7,500 in owner's equity.²⁵

According to Britain's Manpower Services Commission, 66 percent of the new businesses launched under EAS auspices are service-sector firms, 15 percent construction, and 14 percent manufacturing. More than one-third of the service-sector firms are retail or business-service concerns.²⁶ Bendick and Egan re-

ported that more than 90 percent of the EAS-assisted firms were started with an owner's investment of less than \$7,500.²⁷

The experience in these two nations suggests that if the program is well targeted to the long-term unemployed, use of UI funds to help launch new business ventures could be successful in removing workers from the ranks of the unemployed. Reporting results similar to those in France, a survey of the British program found that 36 percent of the participants would not have gone into business without the government support, and another 31 percent had accelerated their start because of the assistance.²⁸ Thus, only one-third used their UI benefits for what they probably would have done anyway.

So far, entrepreneurial assistance has been most successful for skilled workers. The majority of those participating in France's program, some 71 percent, were managers, technicians, and the like. However, the idea can also be applied to disadvantaged workers who may not be considered skilled, and it can succeed with the proper nurturing. For example, more than 100 low-income women enrolled in a business development program in St. Paul, Minnesota, have started successful businesses. These women make clothes, candies, jewelry, and toys. Their success suggests that entrepreneurship for less-skilled, disadvantaged persons can be made a feasible alternative.²⁹

The European experience provides some important lessons for

U.S. policy makers:

- UI can provide entrepreneurs with a significant portion of needed capital to undertake a new business venture, if they obtain it in a lump sum, as in France.
- A lump sum UI payment could serve as collateral to leverage additional money in loans, as in Belgium.
- The entrepreneurial assistance programs can be designed so they add no new costs to the existing UI program. Both the British and the French programs finance self-employment assistance from funds that the eligible person would have received anyway.
- Those businesses that do survive probably will generate important spinoff benefits in the form of additional jobs.

The UI system has provided an important service to the nation's unemployed since it began. Its explicit objective of providing income in the short-term to cover involuntary unemployment is important and must be maintained. Policy changes must not impair the capability of the UI trust fund to ensure against temporary earnings losses. However, alternatives to the basic payment function could make the system more responsive to changing labor market conditions. Maintaining persons in unemployment is not an answer to structural dislocation. When options for retraining and reemployment are available, UI recipients must be allowed to pursue them.

4. Recommendations

The UI system was designed to provide workers with a temporary financial cushion during times of economic downturn. It was conceived 50 years ago as a bridge between periods of "normalcy" in the workplace.

Since the severe economic dislocations of the mid-1970s, though, this idea of UI as a bridge has come under sharp scrutiny. Many of the jobs for which laid-off workers claimed these temporary benefits simply disappeared, as company divisions, subsidiaries, and entire firms succumbed to changes in the economic base. Many of these jobs were in traditional manufacturing industries, long an economic staple in the Northeast and Midwest. Moreover, many of the workers who found themselves displaced were not young newcomers to the work force, but middle-aged with many years of service—and facing dim prospects for retraining and reemployment.

The UI system can address the new reality of the nation's unemployment situation and become an important force in retraining and job-generating activities. Potential changes to UI range from better use of existing data for state and local program modifications to federally authorized pilot programs in entrepreneurship based on similar European experiments. These recommendations are summarized below.

State policy makers should:

- review which agency in the state is assigned the responsibility of approving training

programs for UI recipients and assign this function to the most appropriate body;

- specify which training programs and/or institutions are approved automatically for providing training to UI recipients and develop clear criteria for approving other programs;
- adopt policies governing who may enroll in training while continuing to receive UI and encourage the enrollment of UI claimants who face reemployment problems;
- study historical UI data to establish whether patterns of UI exhaustion exist to help identify at earlier stages those claimants who might benefit from retraining;
- reemphasize testing and assessment activities in the Employment Service to identify UI claimants likely to need remedial education or occupational training for reemployment;
- use the ES 10 percent set-aside to strengthen the testing and assessment functions of the Employment Service;
- consider creating state training funds by substituting levies for UI taxes where UI surpluses exist; and
- take advantage of expiring FUTA penalty taxes to create state training funds where feasible.

Educational administrators should:

- determine whether training programs offered by their in-

stitutions are approved for UI recipients, and seek automatic approval where it is not granted already;

- determine what policies the state has adopted for allowing UI recipients to enroll in training, and emphasize the importance of training people while they still have some means of support available through UI;
- find out if work-sharing is authorized in their state and determine whether training would be useful option in particular work-sharing situations; and
- work with Employment Security administrators to create state training funds were feasible.

Congress should:

- direct the Department of Labor to provide technical assistance to the states on UI and training by sharing information on state approval

processes and developing models to help states determine which UI recipients may benefit from retraining;

- direct the Department of Labor to expand its data collection activities to include more information on the training experiences of UI recipients, both in JTPA and other programs, and the results of these activities;
- develop positive incentives for states to combine UI and training using the offset precedent of Title III of the Job Training Partnership Act;
- explore whether other federal training programs could be considered "training with the approval of the state"; and
- authorize pilot programs to explore alternative uses of UI to promote self-employment opportunities, and earmark training and technical assistance resources for such efforts.

Notes

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22. U.S. Department of Labor, *Alternative Uses of Unemployment Insurance*, p. 60.

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27. Marc Bendick, Jr., and Mary Lou Egan, *Transfer Payment Diversion for Small Business Development: British and French Experience*, p. 16.

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